

Message Text

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ACTION SCI-06

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C O R R E C T E D C O P Y FOR MRN 01806 VICE 00106

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E.O. 11652: N/A

TAGS:TECH

SUBJECT: ENRICHMENT CONTRACTS

REF: A STATE 058011; B EC BRUSSELS 1530; C EC BRUSSELS 1719

1. TO DATE AEC BRUSSELS HAS INDICATION THAT ONLY THREE UTILITIES PLAN TO SIGN CONTRACTS FOR ENRICHING SERVICES WITH USAEC BY THE JUNE 30, 1974, DEADLINE (SWEDEN'S FORSMÅK-2 AND OKG-3 PLUS ENEL V OR VI). SOME DISCUSSION ABOUT A CONTRACT HAS OCCURRED WITH THREE MORE UTILITIES (ONE GERMAN FOR KWO-2, ONE AUSTRIAN AND ONE NORWEGIAN) BUT WITH NO POSITIVE INDICATION ABOUT DEFINITE PLANS TO BUILD A NUCLEAR POWER PLANT OR SIGN AN ENRICHMENT SERVICE CONTRACT WITH THE AEC. SEE REFTEL C.

2. WE BELIEVE THERE ARE THREE MAJOR FACTORS CAUSING THIS DRAMATIC SWING AWAY FROM CONTRACTING WITH THE AEC. FIRST IS THE FURTHER FIRING UP OF PLANS BY EURODIF TO PROCEED, OR
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POSSIBLY JUST CONVINCING MORE GROUPS THAT THEIR PREVIOUS

ANNOUNCEMENT ABOUT BUILDING A DIFFUSION PLANT WAS GENUINE. ALSO, THE URENCO PROJECT SEEMS TO BE MOVING ALONG ABOUT AS PROJECTED. THE SECOND REASON AND CLOSELY RELATED TO THE FIRST IS THE DESIRE BY THE EUROPEAN UTILITIES WHICH ARE PARTNERS IN EITHER EURODIF OR URENCO TO AVOID LONG TERM CONTRACTS WITH THE AEC AND THEREBY PERMIT ORDERING FROM ONE OF THE EUROPEAN SOURCES OF SUPPLY AS SOON AS THEY START OPERATIONS. THE THIRD REASON IS THE 6-YEAR LEAD TIME FOR PLANNING PURPOSES IN EUROPE FROM COMMITMENT TO OPERATION OF NUCLEAR POWER PLANTS WHICH RESULTS IN MANY CASES THAT FEW UTILITIES HAVE MADE COMMITMENTS FOR SPECIFIC NUCLEAR POWER PLANTS REQUIRING INITIAL DELIVERY OF FUEL DURING THE 1978-82 PERIOD.

3. THERE IS STILL A SIGNIFICANT UNCOMMITTED MARKET AVAILABLE FOR ENRICHMENT SERVICES IN THE JULY 1978 THROUGH JUNE 1982 PERIOD AND VERY LIKELY BEYOND THIS PERIOD OPEN TO THE AEC BUT NOT ON THE BASIS OF THE PRESENT AEC CONTRACT TERMS. THE PRINCIPAL OBSTACLE IS THE 8-YEAR ADVANCE LEAD TIME FOR SIGNING A CONTRACT BUT ALMOST EQUALLY IMPORTANT IS THE 10-YEAR COMMITMENT. THE SWU COST DOES NOT APPEAR TO BE A VERY DOMINANT FACTOR AND THE DOWN PAYMENT IS MORE OF AN IRRITANT THAN AN OBSTACLE.

4. THIS MISSION IS NOT PROPOSING THAT THE AEC CONTRACT TERMS BE CHANGED TO ACCOMMODATE THE INTEREST OF EUROPEAN UTILITIES. WE DO RECOMMEND, HOWEVER, THAT THE PRESENT TREND BE ASSESSED TO DECIDE WHERE THE BEST OVERALL INTEREST OF THE US LIES, ESPECIALLY IN VIEW OF USG POLICY, AS STATED IN REFTTEL A, TO ENCOURAGE US SALES OF ENRICHMENT SERVICES ABROAD.

5. THE SOVIETS SEEM TO BE THE MOST LIKELY SOURCE OF SUPPLY FOR THE EURODIF AND URENCO PARTNERS TO TURN TO, PENDING START-UP OF EURODIF AND URENCO FACILITIES, IN VIEW OF THEIR FAVORABLE TERMS COMPARED TO AEC. OUR CONVERSATIONS WITH UTILITIES INDICATE THERE IS STILL CONSIDERABLE UNCERTAINTY ABOUT CONTRACTING WITH THE SOVIETS FOR ENRICHMENT SERVICES AND A GENERAL RELUCTANCE TO BE TOO DEPENDENT ON THEM FOR A MAJOR SHARE OF ANY ONE UTILITY'S ENERGY REQUIREMENTS. THIS MAKES CONTRACTING WITH THE AEC STILL ATTRACTIVE.

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6. SINCE NO SPECIFIC UTILITY BY UTILITY OR COUNTRY BY COUNTRY ASSESSMENT HAS BEEN MADE, WE ARE UNABLE TO PROJECT FURTHER ENRICHMENT CONTRACTS BY THE JUNE 30, 1974, DEADLINE BEYOND THOSE NOTED IN PARA 1. WE HAVE BEEN PROMISED RESULTS FROM A EURATOM SUPPLY AGENCY INQUIRY ON THIS QUESTION, BUT IT WILL NOT BE AVAILABLE UNTIL MID-APRIL. SOME POTENTIAL CUSTOMERS FOR SPOT SALES PENDING EURODIF AND URENCO SCHEDULED OPERATIONS WOULD INCLUDE FRANCE, IF THEIR NEW NUCLEAR POWER PROGRAM PRO-

CEEDS ON SCHEDULE; ITALY AND SPAIN, IF NEW PLANT PROJECTIONS MATERIALIZE; GERMANY IN FURTHER COVERAGE OF THEIR TOTAL REQUIREMENTS, IF THE ON AGAIN, OFF AGAIN OFFSET PURCHASE DOES NOT MATERIALIZE; AND SINGLE REACTION NEEDS IN SWITZERLAND, SWEDEN, AND BELGIUM.

7. ONE ADDITIONAL COMMENT ON PARA. 1 OF REFTTEL A IS THAT WE BELIEVE THE BEST INTEREST OF PRIVATE US ENRICHERS WOULD BE SERVED BY THEIR ACTIVE PRESENCE IN EUROPE ATTEMPTING TO SIGN CONTRACTS WITH CUSTOMERS IN COMPETITION WITH URENCO AND EURODIF MORE THAN BY AEC LONG-TERM CONTRACTS FOR ITS EXISTING CAPACITY. ALSO OUR OBSERVATION IS THAT US PRIVATE ENRICHERS ARE ALREADY ESSENTIALLY LIMITED TO JOINT FUTURE EUROPEAN ENRICHING VENTURES AND MAXIMUM NEAR-TERM REVENUE TO US COMPANIES MIGHT WELL COME FROM SALE OF TECHNOLOGY AND COMPONENTS FOR CENTRIFUGE AND DIFFUSION PLANTS. GREENWALD

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